

TITAN INTERNATIONAL INC
Form 10-Q
April 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended: March 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-12936

TITAN INTERNATIONAL, INC.

(Exact name of Registrant as specified in its Charter)

Illinois
(State of Incorporation)

36-3228472
(I.R.S. Employer Identification No.)

2701 Spruce Street, Quincy, IL 62301
(Address of principal executive offices, including Zip Code)

(217) 228-6011
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at April 21, 2011
Common stock, no par value per share	42,072,631

TITAN INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands, except earnings per share data)

	Three months ended March 31,	
	2011	2010
Net sales	\$280,829	\$196,448
Cost of sales	224,557	170,361
Gross profit	56,272	26,087
Selling, general and administrative expenses	25,293	11,809
Research and development expenses	1,183	2,027
Royalty expense	2,917	2,121
Income from operations	26,879	10,130
Interest expense	(6,280)	(7,056)
Noncash convertible debt conversion charge	(16,135)	0
Other income	193	333
Income before income taxes	4,657	3,407
Provision for income taxes	7,693	1,329
Net income (loss)	\$(3,036)	\$2,078
Earnings (loss) per common share:		
Basic	\$(.07)	\$.06
Diluted	(.07)	.06
Average common shares outstanding:		
Basic	40,511	34,772
Diluted	40,511	35,329
Dividends declared per common share:	\$.005	\$.005

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)
(Amounts in thousands, except share data)

	March 31, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$230,048	\$239,500
Accounts receivable	139,025	89,004
Inventories	133,679	127,982
Deferred income taxes	12,791	12,791
Prepaid and other current assets	18,031	18,663
Total current assets	533,574	487,940
Property, plant and equipment, net	242,064	248,054
Other assets	49,332	51,476
Total assets	\$824,970	\$787,470
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$45,186	\$35,281
Other current liabilities	65,547	57,072
Total current liabilities	110,733	92,353
Long-term debt	312,881	373,564
Deferred income taxes	9,385	1,970
Other long-term liabilities	41,114	41,268
Total liabilities	474,113	509,155
Stockholders' equity		
Common stock(no par, 120,000,000 shares authorized, 44,092,997 and 37,475,288 issued, respectively)	37	30
Additional paid-in capital	375,746	300,540
Retained earnings	12,782	16,028
Treasury stock (at cost, 2,076,040 and 2,108,561 shares, respectively)	(19,033)	(19,324)
Treasury stock reserved for deferred compensation	(1,233)	(1,917)
Accumulated other comprehensive loss	(17,442)	(17,042)
Total stockholders' equity	350,857	278,315
Total liabilities and stockholders' equity	\$824,970	\$787,470

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Amounts in thousands, except share data)

	Number of common shares	Common Stock	Additional paid-in capital	Retained earnings	Treasury stock	Treasury stock reserved for deferred compensation	Accumulated other comprehensive income (loss)	Total
Balance January 1, 2011	#35,366,727	\$ 30	\$ 300,540	\$ 16,028	\$(19,324)	\$ (1,917)	\$ (17,042)	\$ 278,315
Comprehensive income (loss):								
Net loss				(3,036)				(3,036)
Pension liability adjustments, net of tax							593	593
Unrealized loss on investment, net of tax							(993)	(993)
Comprehensive loss								(3,436)
Dividends on common stock				(210)				(210)
Note conversion	6,617,709	7	73,902					73,909
Exercise of stock options	26,125		(4)		234			230
Stock-based compensation			393					393
Deferred compensation transactions			846			684		1,530
Issuance of treasury stock under 401(k) plan	6,396		69		57			126
Balance March 31, 2011	#42,016,957	\$ 37	\$ 375,746	\$ 12,782	\$(19,033)	\$ (1,233)	\$ (17,442)	\$ 350,857

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Three months ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$(3,036)	\$2,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,299	9,281
Deferred income tax provision	7,415	1,275
Noncash convertible debt conversion charge	16,135	0
Stock-based compensation	393	0
Issuance of treasury stock under 401(k) plan	126	123
(Increase) decrease in assets:		
Accounts receivable	(50,021)	(34,789)
Inventories	(5,697)	(19,462)
Prepaid and other current assets	632	3,099
Other assets	10	46
Increase in liabilities:		
Accounts payable	9,905	22,432
Other current liabilities	8,442	4,413
Other liabilities	802	1,365
Net cash used for operating activities	(5,595)	(10,139)
Cash flows from investing activities:		
Capital expenditures	(3,469)	(3,508)
Other	623	42
Net cash used for investing activities	(2,846)	(3,466)
Cash flows from financing activities:		
Repurchase of senior unsecured notes	(1,064)	0
Proceeds from exercise of stock options	230	0
Payment of financing fees	0	(186)
Dividends paid	(177)	(176)
Net cash used for financing activities	(1,011)	(362)
Net decrease in cash and cash equivalents	(9,452)	(13,967)
Cash and cash equivalents at beginning of period	239,500	229,182
Cash and cash equivalents at end of period	\$230,048	\$215,215

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

1. ACCOUNTING POLICIES

In the opinion of Titan International, Inc. (Titan or the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments, which are normal and recurring in nature and necessary for a fair statement of the Company's financial position as of March 31, 2011, and the results of operations and cash flows for the three months ended March 31, 2011 and 2010.

Accounting policies have continued without significant change and are described in the Description of Business and Significant Accounting Policies contained in the Company's 2010 Annual Report on Form 10-K. These interim financial statements have been prepared pursuant to the Securities and Exchange Commission's rules for Form 10-Q's and, therefore, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2010 Annual Report on Form 10-K.

Fair value of financial instruments

The Company records all financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, other accruals and notes payable at cost, which approximates fair value. Investments in marketable equity securities are recorded at fair value. The senior secured 7.875% notes due 2017 (senior secured notes) and convertible senior subordinated 5.625% notes due 2017 (convertible notes) are carried at cost of \$200.0 million and \$112.9 million at March 31, 2011, respectively. The fair value of these notes at March 31, 2011, as obtained through independent pricing sources, was approximately \$214.0 million for the senior secured notes and approximately \$317.8 million for the convertible notes. The increase in the fair value of the convertible notes is due primarily to the increased value of the underlying common stock.

Cash dividends

The Company declared cash dividends of \$.005 per share of common stock for each of the three months ended March 31, 2011 and 2010.

2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Accounts receivable	\$143,258	\$92,893
Allowance for doubtful accounts	(4,233)	(3,889)
Accounts receivable, net	\$139,025	\$89,004

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

3. INVENTORIES

Inventories consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Raw materials	\$54,169	\$56,414
Work-in-process	18,103	16,860
Finished goods	64,010	59,680
	136,282	132,954
Adjustment to LIFO basis	(2,603)	(4,972)
	\$133,679	\$127,982

At March 31, 2011, cost is determined using the first-in, first-out (FIFO) method for approximately 66% of inventories and the last-in, first-out (LIFO) method for approximately 34% of the inventories. At December 31, 2010, the FIFO method was used for approximately 64% of inventories and LIFO was used for approximately 36% of the inventories. Included in the inventory balances were provisions for slow-moving and obsolete inventory of \$7.6 million at March 31, 2011, and \$7.4 million at December 31, 2010.

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Land and improvements	\$3,061	\$3,061
Buildings and improvements	98,234	98,233
Machinery and equipment	385,153	383,231
Tools, dies and molds	84,901	84,134
Construction-in-process	8,040	8,741
	579,389	577,400
Less accumulated depreciation	(337,325)	(329,346)
	\$242,064	\$248,054

Depreciation on fixed assets for the three months ended March 31, 2011 and 2010, totaled \$8.8 million and \$8.6 million, respectively.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

5. INVESTMENT IN TITAN EUROPE PLC

Investment in Titan Europe Plc consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Investment in Titan Europe Plc	\$21,165	\$22,693

Titan Europe Plc is publicly traded on the AIM market in London, England. The Company's investment in Titan Europe represents a 22.9% ownership percentage. The Company has considered the applicable guidance in Accounting Standards Codification (ASC) 323 Investments – Equity Method and Joint Ventures and has concluded that the Company's investment in Titan Europe Plc should be accounted for as an available-for-sale security and recorded at fair value in accordance with ASC 320 Investments – Debt and Equity Securities as the Company does not have significant influence over Titan Europe Plc. The investment in Titan Europe Plc is included as a component of other assets on the Consolidated Condensed Balance Sheets. Titan's cost basis in Titan Europe is \$5.0 million. Titan's accumulated other comprehensive income includes a gain on the Titan Europe Plc investment of \$10.5 million, which is net of tax of \$5.6 million. The decreased value in the Titan Europe Plc investment at March 31, 2011, was due primarily to a lower publicly quoted Titan Europe Plc market price.

6. WARRANTY

Changes in the warranty liability consisted of the following (in thousands):

	2011	2010
Warranty liability, January 1	\$12,471	\$9,169
Provision for warranty liabilities	5,256	3,629
Warranty payments made	(3,743)	(3,377)
Warranty liability, March 31	\$13,984	\$9,421

The Company provides limited warranties on workmanship on its products in all market segments. The majority of the Company's products have a limited warranty that ranges from zero to ten years, with certain products being prorated after the first year. The Company calculates a provision for warranty expense based on past warranty experience. Warranty accruals are included as a component of other current liabilities on the Consolidated Condensed Balance Sheets.

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
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7.875% senior notes due 2017	\$200,000	\$200,000
5.625% convertible senior notes due 2017	112,881	172,500
8% senior unsecured notes due January 2012	0	1,064
	312,881	373,564
Less: Amounts due within one year	0	0
	\$312,881	\$373,564

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Aggregate maturities of long-term debt at March 31, 2011, were as follows (in thousands):

April 1 – December 31, 2011	\$0
2012	0
2013	0
2014	0
2015	0
Thereafter	312,881
	\$312,881

7.875% senior secured notes due 2017

The Company's 7.875% senior secured notes (senior secured notes) are due October 2017. These notes are secured by the land and buildings of the following subsidiaries of the Company: Titan Tire Corporation, Titan Wheel Corporation of Illinois, Titan Tire Corporation of Freeport, and Titan Tire Corporation of Bryan. The Company's senior secured notes outstanding balance was \$200.0 million at March 31, 2011.

5.625% convertible senior subordinated notes due 2017

The Company's 5.625% convertible senior subordinated notes (convertible notes) are due January 2017. The initial base conversion rate for the convertible notes is 93.0016 shares of Titan common stock per \$1,000 principal amount of convertible notes, equivalent to an initial base conversion price of approximately \$10.75 per share of Titan common stock. If the price of Titan common stock at the time of determination exceeds the base conversion price, the base conversion rate will be increased by an additional number of shares (up to 9.3002 shares of Titan common stock per \$1,000 principal amount of convertible notes) as determined pursuant to a formula described in the indenture. The base conversion rate will be subject to adjustment in certain events. The Company's convertible notes balance was \$112.9 million at March 31, 2011.

In the first quarter of 2011, the Company closed an Exchange Agreement with a note holder of the convertible notes, pursuant to which such holder converted approximately \$59.6 million in aggregate principal amount of the Convertible Notes into approximately 6.6 million shares of the Company's common stock, plus a payment for the accrued and unpaid interest. In connection with the exchange, the Company recognized a noncash charge of \$16.1 million in accordance with ASC 470-20 Debt – Debt with Conversion and Other Options.

8% senior unsecured notes due 2012

In the first quarter of 2011, Titan satisfied and discharged the indenture relating to the 8% senior unsecured notes due January 2012 by depositing with the trustee \$1.1 million cash representing the outstanding principal of such notes and interest payments due on July 15, 2011, and at maturity on January 15, 2012. Titan irrevocably instructed the trustee to apply the deposited money toward the interest and principal of the notes.

Revolving credit facility

The Company's \$100 million revolving credit facility (credit facility) with agent Bank of America, N.A. has a January 2014 termination date and is collateralized by the accounts receivable and inventory of Titan and certain of its domestic subsidiaries. During the first quarter of 2011 and at March 31, 2011, there were no borrowings under the

credit facility. The credit facility contains certain financial covenants, restrictions and other customary affirmative and negative covenants. Titan is in compliance with these covenants and restrictions as of March 31, 2011.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

8. LEASE COMMITMENTS

The Company leases certain buildings and equipment under operating leases. Certain lease agreements provide for renewal options, fair value purchase options, and payment of property taxes, maintenance and insurance by the Company.

At March 31, 2011, future minimum commitments under noncancellable operating leases with initial or remaining terms of at least one year were as follows (in thousands):

April 1 – December 31, 2011	\$370
2012	79
2013	18
2014	1
Thereafter	0
Total future minimum lease payments	\$468

9. EMPLOYEE BENEFIT PLANS

The Company has three frozen defined benefit pension plans and one defined benefit plan that previously purchased a final annuity settlement. The Company also sponsors four 401(k) retirement savings plans. The Company expects to contribute approximately \$2 million to the pension plans during the remainder of 2011.

The components of net periodic pension cost consisted of the following (in thousands):

	Three months ended March 31,	
	2011	2010
Interest cost	\$1,272	\$1,300
Expected return on assets	(1,315)	(1,227)
Amortization of unrecognized prior service cost	34	34
Amortization of unrecognized deferred taxes	(14)	(14)
Amortization of net unrecognized loss	936	907
Net periodic pension cost	\$913	\$1,000

10. ROYALTY EXPENSE

The Company has a trademark license agreement with The Goodyear Tire & Rubber Company to manufacture and sell certain off-highway tires in North America under the Goodyear name. Royalty expenses recorded were \$2.9 million and \$2.1 million for the first quarter of 2011 and 2010, respectively.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

11. OTHER INCOME

Other income consisted of the following (in thousands):

	Three months ended March 31,	
	2011	2010
Investment gain on marketable securities	\$93	\$196
Interest income	145	94
Other income (expense)	(45)	43
	\$193	\$333

12. INCOME TAXES

The Company recorded income tax expense of \$7.7 million and \$1.3 million for the quarters ended March 31, 2011 and 2010, respectively. The Company's effective income tax rate was 165% and 39% for the three months ended March 31, 2011 and 2010, respectively. The Company's 2011 income tax expense and rate differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of the \$16.1 million noncash charge taken in connection with the Company's convertible debt. This noncash charge is not deductible for income tax purposes.

13. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consisted of the following (in thousands):

	Three months ended March 31,	
	2011	2010
Net income (loss)	\$(3,036)	\$2,078
Unrealized loss on investment, net of tax	(993)	(918)
Pension liability adjustments, net of tax	593	575
	\$(3,436)	\$1,735

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

14. SEGMENT INFORMATION

The table below presents information about certain revenues and income from operations used by the chief operating decision maker of the Company for the three months ended March 31, 2011 and 2010 (in thousands):

	Three months ended March 31,	
	2011	2010
Revenues from external customers		
Agricultural	\$209,997	\$151,112
Earthmoving/construction	66,511	41,815
Consumer	4,321	3,521
	\$280,829	\$196,448
Gross profit		
Agricultural	\$47,700	\$23,890
Earthmoving/construction	8,195	3,150
Consumer	1,002	668
Unallocated corporate	(625)	(1,621)
	\$56,272	\$26,087
Income from operations		
Agricultural	\$42,868	\$19,955
Earthmoving/construction	6,288	690
Consumer	916	581
Unallocated corporate	(23,193)	(11,096)
Consolidated income from operations	26,879	10,130
Interest expense	(6,280)	(7,056)
Noncash convertible debt conversion charge	(16,135)	0
Other income, net	193	333
Income before income taxes	\$4,657	\$3,407

Assets by segment were as follows (in thousands):

	March 31, 2011	December 31, 2010
Total Assets		
Agricultural	\$347,432	\$304,048
Earthmoving/construction	193,276	181,249
Consumer	9,239	5,863
Unallocated corporate	275,023	296,310
Consolidated totals	\$824,970	\$787,470

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

15. EARNINGS PER SHARE

Earnings per share (EPS) were as follows (amounts in thousands, except per share data):

			Three months ended			
		March 31, 2011			March 31, 2010	
	Net	Weighted	Per share	Net	Weighted	Per share
	Loss	average	amount	Income	average	amount
		shares			shares	
Basic EPS	\$(3,036)	40,511	\$(.07)	\$2,078	34,772	\$.06
Effect of stock options/trusts	0	0		0	557	
Diluted EPS	\$(3,036)	40,511	\$(.07)	\$2,078	35,329	\$.06

The effect of convertible notes has been excluded for both of the three months ended March 31, 2011 and 2010, as the effect would have been antidilutive. The weighted average share amount excluded for convertible notes totaled 12.3 million shares and 16.0 million shares for the three months ended March 31, 2011 and 2010, respectively.

The effect of stock options/trusts has been excluded for the three months ended March 31, 2011, as the effect would have been antidilutive. The weighted average share amount excluded was 0.3 million shares.

16. FAIR VALUE MEASUREMENTS

ASC 820 Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are defined as:

Level 1 – Quoted prices in active markets for identical instruments;

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis consisted of the following (in thousands):

		March 31, 2011			December 31, 2010	
	Total	Level 1	Levels 2&3	Total	Level 1	Levels 2&3
Investment in Titan Europe Plc	\$21,165	\$21,165	\$0	\$22,693	\$22,693	\$0
Investment in marketable securities	12,791	12,791	0	11,168	11,168	0
Total	\$33,956	\$33,956	\$0	\$33,861	\$33,861	\$0

17. LITIGATION

The Company is a party to routine legal proceedings arising out of the normal course of business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes at this time that none of these actions, individually or in the aggregate, will have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company. However, due to the difficult nature of predicting unresolved and future legal claims, the Company cannot anticipate or predict the material adverse effect on its consolidated financial condition, results of operations or cash flows as a result of efforts to comply with or its liabilities pertaining to legal judgments.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

18. RECENTLY ISSUED ACCOUNTING STANDARDS

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements, from those disclosed in the Company's 2010 Annual Report on Form 10-K.

19. SUBSEQUENT EVENTS

Purchase of Goodyear's Latin American Farm Tire Business

On April 1, 2011, Titan closed on the acquisition of The Goodyear Tire & Rubber Company's Latin American farm tire business for approximately \$98.6 million U.S. dollars, subject to post-closing conditions and adjustments. The transaction includes Goodyear's Sao Paulo, Brazil manufacturing plant, property, equipment and inventories and a licensing agreement that allows Titan to sell Goodyear-brand farm tires in Latin America for seven years and extends the North American licensing agreement for seven years.

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

20. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company's 5.625% convertible senior subordinated notes are guaranteed by the following subsidiaries of the Company: Titan Tire Corporation, Titan Tire Corporation of Bryan, Titan Tire Corporation of Freeport, Titan Tire Corporation of Texas, Titan Wheel Corporation of Illinois, and Titan Wheel Corporation of Virginia. The note guarantees are full and unconditional, joint and several obligations of the guarantors. The following condensed consolidating financial statements are presented using the equity method of accounting. Certain sales & marketing expenses recorded by non-guarantor subsidiaries have not been allocated to the guarantor subsidiaries.

Consolidating Condensed Statements of Operations

(Amounts in thousands)

	For the Three Months Ended March 31, 2011				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$0	\$ 280,829	\$0	\$ 0	\$ 280,829
Cost of sales	361	223,754	442	0	224,557
Gross profit (loss)	(361)	57,075	(442)	0	56,272
Selling, general and administrative expenses	15,405	2,725	7,163	0	25,293
Research and development expenses	0	1,183	0	0	1,183
Royalty expense	0	2,917	0	0	2,917
Income (loss) from operations	(15,766)	50,250	(7,605)	0	26,879
Interest expense	(6,280)	0	0	0	(6,280)
Noncash convertible debt conversion charge	(16,135)	0	0	0	(16,135)
Other income (expense)	317	(202)	78	0	193
Income (loss) before income taxes	(37,864)	50,048	(7,527)	0	4,657
Provision (benefit) for income taxes	(8,039)	18,518	(2,786)	0	7,693
Equity in earnings of subsidiaries	26,789	(60)	60	(26,789)	0
Net income (loss)	\$(3,036)	\$ 31,470	\$(4,681)	\$(26,789)	\$(3,036)

Consolidating Condensed Statements of Operations

(Amounts in thousands)

	For the Three Months Ended March 31, 2010				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$0	\$ 196,448	\$0	\$ 0	\$ 196,448
Cost of sales	1,324	168,550	487	0	170,361
Gross profit (loss)	(1,324)	27,898	(487)	0	26,087
Selling, general and administrative expenses	4,864	2,334	4,611	0	11,809
Research and development expenses	0	2,027	0	0	2,027
Royalty expense	0	2,121	0	0	2,121
Income (loss) from operations	(6,188)	21,416	(5,098)	0	10,130

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Interest expense	(7,056)	0	0	0	(7,056)
Other income (expense)	290	(2)	45	0	333
Income (loss) before income taxes	(12,954)	21,414	(5,053)	0	3,407
Provision (benefit) for income taxes	(5,052)	8,352	(1,971)	0	1,329
Equity in earnings of subsidiaries	9,980	(88)	88	(9,980)	0
Net income (loss)	\$2,078	\$ 12,974	\$(2,994)	\$ (9,980)	\$ 2,078

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Consolidating Condensed Balance Sheets

(Amounts in thousands)

	March 31, 2011				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 229,924	\$ 7	\$ 117	\$ 0	\$ 230,048
Accounts receivable	0	139,025	0	0	139,025
Inventories	0	133,679	0	0	133,679
Prepaid and other current assets	14,063	16,389	370	0	30,822
Total current assets	243,987	289,100	487	0	533,574
Property, plant and equipment, net	7,667	229,385	5,012	0	242,064
Investment in subsidiaries	61,855	9,057	20	(70,932)	0
Other assets	21,573	1,060	26,699	0	49,332
Total assets	\$ 335,082	\$ 528,602	\$ 32,218	\$ (70,932)	\$ 824,970
Liabilities and Stockholders' Equity					
Accounts payable	\$ 790	\$ 44,006	\$ 390	\$ 0	\$ 45,186
Other current liabilities	20,332	42,860	2,355	0	65,547
Total current liabilities	21,122	86,866	2,745	0	110,733
Long-term debt	312,881	0	0	0	312,881
Other long-term liabilities	16,980	27,671	5,848	0	50,499
Intercompany accounts	(366,758)	189,850	176,908	0	0
Stockholders' equity	350,857	224,215	(153,283)	(70,932)	350,857
Total liabilities and stockholders' equity	\$ 335,082	\$ 528,602	\$ 32,218	\$ (70,932)	\$ 824,970

Consolidating Condensed Balance Sheets

(Amounts in thousands)

	December 31, 2010				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 239,362	\$ 6	\$ 132	\$ 0	\$ 239,500
Accounts receivable	0	89,004	0	0	89,004
Inventories	0	127,982	0	0	127,982
Prepaid and other current assets	14,732	16,240	482	0	31,454
Total current assets	254,094	233,232	614	0	487,940
Property, plant and equipment, net	7,678	235,143	5,233	0	248,054
Investment in subsidiaries	39,465	9,057	20	(48,542)	0
Other assets	22,183	869	28,424	0	51,476
Total assets	\$ 323,420	\$ 478,301	\$ 34,291	\$ (48,542)	\$ 787,470

Liabilities and Stockholders' Equity					
Accounts payable	\$ 1,406	\$ 33,473	\$ 402	\$ 0	\$ 35,281
Other current liabilities	16,066	39,186	1,820	0	57,072
Total current liabilities	17,472	72,659	2,222	0	92,353
Long-term debt	373,564	0	0	0	373,564
Other long-term liabilities	9,161	28,083	5,994	0	43,238
Intercompany accounts	(355,092)	178,164	176,928	0	0
Stockholders' equity	278,315	199,395	(150,853)	(48,542)	278,315
Total liabilities and stockholders' equity	\$ 323,420	\$ 478,301	\$ 34,291	\$ (48,542)	\$ 787,470

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Consolidating Condensed Statements of Cash Flows

(Amounts in thousands)

For the Three Months Ended March 31, 2011

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Net cash provided by (used for) operating activities	\$(8,115)	\$ 2,487	\$ 33	\$ (5,595)
Cash flows from investing activities:				
Capital expenditures	(312)	(3,100)	(57)	(3,469)
Other, net	0	614	9	623
Net cash used for investing activities	(312)	(2,486)	(48)	(2,846)
Cash flows from financing activities:				
Repurchase of senior unsecured notes	(1,064)	0	0	(1,064)
Proceeds from exercise of stock options	230	0	0	230
Dividends paid	(177)	0	0	(177)
Net cash used for financing activities	(1,011)	0	0	(1,011)
Net increase (decrease) in cash and cash equivalents	(9,438)	1	(15)	(9,452)
Cash and cash equivalents, beginning of period	239,362	6	132	239,500
Cash and cash equivalents, end of period	\$ 229,924	\$ 7	\$ 117	\$ 230,048

Consolidating Condensed Statements of Cash Flows

(Amounts in thousands)

For the Three Months Ended March 31, 2010

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Net cash provided by (used for) operating activities	\$(13,596)	\$ 3,427	\$ 30	\$ (10,139)
Cash flows from investing activities:				
Capital expenditures	0	(3,460)	(48)	(3,508)
Other, net	0	37	5	42
Net cash used for investing activities	0	(3,423)	(43)	(3,466)
Cash flows from financing activities:				
Payment of financing fees	(186)	0	0	(186)
Dividends paid	(176)	0	0	(176)
Net cash used for financing activities	(362)	0	0	(362)
Net increase (decrease) in cash and cash equivalents	(13,958)	4	(13)	(13,967)
Cash and cash equivalents, beginning of period	229,004	11	167	229,182

Cash and cash equivalents, end of period	\$215,046	\$ 15	\$ 154	\$ 215,215

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

21. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company's 7.875% senior secured notes are guaranteed by the following subsidiaries of the Company: Titan Tire Corporation, Titan Tire Corporation of Bryan, Titan Tire Corporation of Freeport, and Titan Wheel Corporation of Illinois. The note guarantees are full and unconditional, joint and several obligations of the guarantors. The following condensed consolidating financial statements are presented using the equity method of accounting. Certain sales & marketing expenses recorded by non-guarantor subsidiaries have not been allocated to the guarantor subsidiaries.

Consolidating Condensed Statements of Operations

(Amounts in thousands)

For the Three Months Ended March 31, 2011

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$0	\$274,961	\$5,868	\$0	\$280,829
Cost of sales	361	217,995	6,201	0	224,557
Gross profit (loss)	(361)	56,966	(333)	0	56,272
Selling, general and administrative expenses	15,405	2,649	7,239	0	25,293
Research and development expenses	0	1,183	0	0	1,183
Royalty expense	0	2,917	0	0	2,917
Income (loss) from operations	(15,766)	50,217	(7,572)	0	26,879
Interest expense	(6,280)	0	0	0	(6,280)
Noncash convertible debt conversion charge	(16,135)	0	0	0	(16,135)
Other income (expense)	317	(235)	111	0	193
Income (loss) before income taxes	(37,864)	49,982	(7,461)	0	4,657
Provision (benefit) for income taxes	(8,039)	18,493	(2,761)	0	7,693
Equity in earnings of subsidiaries	26,789	(60)	60	(26,789)	0
Net income (loss)	\$(3,036)	\$31,429	\$(4,640)	\$(26,789)	\$(3,036)

Consolidating Condensed Statements of Operations

(Amounts in thousands)

For the Three Months Ended March 31, 2010

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$0	\$192,458	\$3,990	\$0	\$196,448
Cost of sales	1,324	163,000	6,037	0	170,361
Gross profit (loss)	(1,324)	29,458	(2,047)	0	26,087
Selling, general and administrative expenses	4,864	2,255	4,690	0	11,809
Research and development expenses	0	1,955	72	0	2,027
Royalty expense	0	2,121	0	0	2,121
Income (loss) from operations	(6,188)	23,127	(6,809)	0	10,130
Interest expense	(7,056)	0	0	0	(7,056)
Other income (expense)	290	27	16	0	333

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Income (loss) before income taxes	(12,954)	23,154	(6,793)	0	3,407
Provision (benefit) for income taxes	(5,052)	9,030	(2,649)	0	1,329
Equity in earnings of subsidiaries	9,980	(88)	88	(9,980)	0
Net income (loss)	\$2,078	\$ 14,036	\$(4,056)	\$ (9,980)	\$ 2,078

TITAN INTERNATIONAL, INC
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Consolidating Condensed Balance Sheets

(Amounts in thousands)

	March 31, 2011				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 229,924	\$ 4	\$ 120	\$ 0	\$ 230,048
Accounts receivable	0	134,786	4,239	0	139,025
Inventories	0	119,300	14,379	0	133,679
Prepaid and other current assets	14,063	16,018	741	0	30,822
Total current assets	243,987	270,108	19,479	0	533,574
Property, plant and equipment, net	7,667	213,858	20,539	0	242,064
Investment in subsidiaries	61,855	9,057	10	(70,922)	0
Other assets	21,573	1,060	26,699	0	49,332
Total assets	\$ 335,082	\$ 494,083	\$ 66,727	\$ (70,922)	\$ 824,970
Liabilities and Stockholders' Equity					
Accounts payable	\$ 790	\$ 42,779	\$ 1,617	\$ 0	\$ 45,186
Other current liabilities	20,332	42,331	2,884	0	65,547
Total current liabilities	21,122	85,110	4,501	0	110,733